

**REPORT OF THE AUDIT OF THE
HART COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2001**

The Auditor of Public Accounts has completed the Hart County Fiscal Court audit for the fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$ 294,910 from the beginning of the year, resulting in a cash surplus of \$1,413,181 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$3,610,000. Future collections of \$5,447,256 are needed over the next eighteen years to pay all bonded debt principal and interest.

Total lease principal as of June 30, 2001, was \$78,400. Future collections of \$83,680 are needed over the next three years to pay all lease principal and interest.

Deposits:

As of June 30, 2001, the fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Hart County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Hart County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Hart County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

In our opinion, based on our audit and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Hart County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 2, 2002 on our consideration of Hart County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Hart County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 2, 2002

HART COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Terry Shelton	County Judge/Executive
Jim Stewart	Magistrate
Albert Hoover	Magistrate
Ronald Riordan	Magistrate
Franklin Turner	Magistrate
Don Kessinger	Magistrate

Other Elected Officials:

J. D. Craddock III	County Attorney
Bill Cartmill	Jailer
Doris Crain	County Clerk
Conroy Harris	Circuit Court Clerk
Jeff Staples	Sheriff
Mary Beth Bunnell	Property Valuation Administrator
Doug Brooks	Coroner

Appointed Personnel:

Sue Gardner	County Treasurer
Rietta Osborne	Occupational Tax Collector
Donna Centers	Finance Officer
Gordon Ard	Road Supervisor
Sandy Cartmill	Jail Administrative Assistant

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	635,142	
Road and Bridge Fund:			
Cash		605,058	
Jail Fund:			
Cash		40,130	
Local Government Economic Assistance Fund:			
Cash		49,738	
911 Dispatch:			
Cash		76,927	
Payroll Revolving Account - Cash		<u>5,413</u>	\$ 1,412,408

Capital Projects Fund Type

Hart County Public Properties Corporation Fund:	5,726
Cash	

Debt Service Fund Type

Hart County Public Properties Corporation Fund:	
Cash	460

Other Resources

General Fund Type

General Fund:		
Amounts to be Provided in Future Years for Lease-Purchase Principal Payments (Note 5)		78,400

Debt Service Fund Type

Hart County Public Properties Corporation Fund:		
Amounts to be Provided in Future Years for Bond Payments (Note 4)	<u>3,609,540</u>	

Total Assets and Other Resources	<u>\$ 5,106,534</u>
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The accompanying notes are an integral part of the financial statements.

HART COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Lease-Purchase Agreements	\$	78,400
Payroll Revolving Account		5,413

Debt Service Fund Type

Hart County Public Properties Corporation Fund:

Bonds Not Matured (Note 4)	3,610,000
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Fund Balances

Reserved:

Capital Projects Fund Type

Hart Count Public Properties Corporation Fund	5,726
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Unreserved:

General Fund Type

General Fund	\$	635,142	
Road and Bridge Fund		605,058	
Jail Fund		40,130	
Local Government Economic Assistance Fund		49,738	
911 Dispatch Fund		76,927	1,406,995

Total Liabilities and Fund Balances	\$	<u>5,106,534</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HART COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,274,320	\$ 2,186,251	\$ 1,045,137	\$ 966,346
Transfers In	884,143			500,000
Kentucky Advance Revenue Program	1,481,300	1,481,300		
Total Cash Receipts	<u>\$ 6,639,763</u>	<u>\$ 3,667,551</u>	<u>\$ 1,045,137</u>	<u>\$ 1,466,346</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,188,112	\$ 1,741,806	\$ 1,032,090	\$ 1,332,612
Transfers Out	884,143	586,425		297,718
Bonds:				
Principal Paid	130,000			
Interest Paid	172,718			
Lease-Purchases Principal	78,400	78,400		
Kentucky Advance Revenue Program Repaid	1,481,300	1,481,300		
Total Cash Disbursements	<u>\$ 6,934,673</u>	<u>\$ 3,887,931</u>	<u>\$ 1,032,090</u>	<u>\$ 1,630,330</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (294,910)	\$ (220,380)	\$ 13,047	\$ (163,984)
Cash Balance - July 1, 2000	<u>1,708,091</u>	<u>855,522</u>	<u>592,011</u>	<u>204,114</u>
Cash Balance - June 30, 2001	<u>\$ 1,413,181</u>	<u>\$ 635,142</u>	<u>\$ 605,058</u>	<u>\$ 40,130</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type		Capital Projects Fund Type	Debt Service Fund Type
Local Government Economic Assistance Fund	911 Dispatch Fund	Hart County Public Properties Corporation Fund	Hart County Public Properties Corporation Fund
\$ 42,723	\$ 33,202 86,425	\$ 272	\$ 389 297,718
\$ 42,723	\$ 119,627	\$ 272	\$ 298,107
\$ 38,904	\$ 42,700	\$	\$
			130,000 172,718
\$ 38,904	\$ 42,700	\$ 0	\$ 302,718
\$ 3,819 45,919	\$ 76,927	\$ 272 5,454	\$ (4,611) 5,071
\$ 49,738	\$ 76,927	\$ 5,726	\$ 460

The accompanying notes are an integral part of the financial statements.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Hart County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Hart County Parks, Playgrounds, and Recreation District, Hart County Public Properties Corporation, Hart County 911 Emergency Telephone Service, Hart County Ambulance Service Taxing District, Hart County Solid Waste Management District, and Hart County Industrial Authority, Inc. as part of the reporting entity.

Hart County Parks, Playgrounds, and Recreation District

Hart County Fiscal Court has the authority to appoint a voting majority of the Hart County Parks, Playgrounds, and Recreation District's Board of Directors. The District is fiscally dependant on Fiscal Court because Fiscal Court has the ability to modify or approve rate or fee changes. Fiscal Court is financially accountable for the District; legally entitled to the District's resources, and legally responsible for the District's debt. However, for fiscal year ended June 30, 2001, the District had no financial activity.

Hart County Public Properties Corporation

The Hart County Public Properties Corporation is a legally separate entity established for the purpose of construction of the county jail building. Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's Board of Directors. The Corporation is fiscally dependant on Fiscal Court because Fiscal Court has the ability to approve or modify the Corporation's budget, modify or approve rate or fee changes, veto, overrule, or modify the decisions of the Corporation's Board. Fiscal Court is financially accountable for the Corporation; legally entitled to the Corporation's resources, and, legally obligated for the Corporation's debt. Financial information for the Public Properties Corporation is blended within Hart County's financial statements.

Hart County 911 Emergency Telephone Service

The Hart County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Hart County. Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. Financial information for the Service is blended within the Hart County's financial information.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Hart County Solid Waste Management District

Hart County Fiscal Court established the Hart County Solid Waste Management District (District) as a legally separate entity pursuant to KRS 67.083(3) and KRS 109.014(13) for the purpose of providing solid waste services for the residents of Hart County. Fiscal Court has the authority to appoint a voting majority of the District's board. The District is fiscally dependent on the Fiscal Court because the Fiscal Court is obligated for a capital lease of solid waste equipment. This fiscal dependency requires the Fiscal Court to include the District as a component unit. A copy of the audit report for fiscal year ended June 30, 2001 is presented under Appendix B.

Hart County Industrial Authority, Inc.

The Hart County Industrial Authority, Inc. (Authority) is a legally separate entity established to promote industrial growth in Hart County. Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has authorized the County Judge Executive to cosign a bank note for the Industrial Authority, with the Fiscal Court acting as Guarantor. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. A copy of the audit report for fiscal year ended June 30, 2001 is presented under Appendix C.

Additional - Hart County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Hart County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Hart County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Hart County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and 911 Dispatch Fund.

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Hart County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for construction acquisition of major capital facilities. The Hart County Public Properties Corporation Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, except the Enterprise Fund Type, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The Enterprise Fund Type uses an accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and records expenses when incurred.

D. Legal Compliance - Budget

The Hart County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation.

Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

In addition, formal budgets are not adopted for the Hart County Ambulance Service Taxing District, Hart County Solid Waste Management District, and Hart County Industrial Authority, Inc. The Department for Local Government does not require component entities to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Hart County Extension District is considered a related organization of Hart County Fiscal Court.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,715 of public funds uninsured and unsecured.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

The Hart County Public Properties Corporation, an independent corporate agency and instrumentality of Hart County, issued mortgage revenue bonds, series 1998, dated March 1, 1998, for the purpose of constructing a new detention facility. On March 1, 1998, \$3,865,000 of mortgage revenue bonds were issued at various interest rates. As of June 30, 2001, the principal balance outstanding was \$3,610,000. Debt service requirements are:

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 167,389	\$ 135,000
June 30, 2003	161,786	140,000
June 30, 2004	155,906	145,000
June 30, 2005	149,743	155,000
June 30, 2006	143,078	160,000
June 30, 2007 - June 30, 2011	602,625	910,000
June 30, 2012 - June 30, 2016	372,729	1,140,000
June 30, 2017 - June 30, 2019	84,000	825,000
Totals	<u>\$ 1,837,256</u>	<u>\$ 3,610,000</u>

Note 5. Lease-Purchase Agreements

- A. On September 9, 1997, the county entered into a lease-purchase agreement at a rate of 5.83% for voting machines. The balance as of June 30, 2001 is \$28,100.

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 1,338	\$ 20,900
June 30, 2003	210	7,200
Totals	<u>\$ 1,548</u>	<u>\$ 28,100</u>

- B. On August 8, 1998, the county entered into a lease-purchase agreement at a rate of 5.12% for the upgrade of tower and dispatch equipment. The balance as of June 30, 2001 is \$50,300.

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 2,311	\$ 20,900
June 30, 2003	1,229	21,900
June 30, 2004	192	7,500
Totals	<u>\$ 3,732</u>	<u>\$ 50,300</u>

Total lease-purchase principal payments due as of June 30, 2001 are \$78,400.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Commitments and Contingencies

A. Hart County Solid Waste Management District Capital Lease

On March 31, 1999, the Hart County Fiscal Court entered into a lease-purchase agreement with Kentucky Area Development Districts (KADD) Financing Trust for the \$350,000 purchase of solid waste equipment. These payments are to be made by the Hart County Solid Waste Management District (See Appendix C). As of June 30, 2001, the principal outstanding was \$253,500. The debt service requirements are:

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 11,285	\$ 47,900
June 30, 2003	9,022	50,200
June 30, 2004	6,650	52,600
June 30, 2005	4,166	55,000
June 30, 2006	1,567	47,800
Totals	<u>\$ 32,690</u>	<u>\$ 253,500</u>

B. Hart County Industrial Authority, Inc. Loans

- 1) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc. in the amount of \$480,000. This loan was issued July 1, 1997, at a variable interest rate for a year, but was renewed on July 1, 1998, July 1, 1999, July 1, 2000, and July 1, 2001. When the loan was renewed on July 1, 2001, the interest rate was variable. The Hart County Industrial Authority, Inc. is to make the loan payments.
- 2) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc. in the amount of \$246,100 for the spec building. The loan was issued June 1, 1998 at an interest rate of 7.5% for two years, but was renewed on June 5, 2000, at a variable interest rate. The Hart County Industrial Authority, Inc. is to make the loan payments.
- 3) On September 21, 2000, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc. in the amount of \$275,000 to retrofit the spec building. This loan was issued November 22, 2000 at a variable interest rate for a year. The Hart County Industrial Authority, Inc. is to make the loan payments.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2001, Hart County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

During the fiscal year ended June 30, 2001, the Hart County Jail Canteen Fund received \$186,545 total funds for the jail canteen and inmate accounts. Expenditures totaled \$157,531 for both accounts.

The Hart County Jail Canteen operations did not fully comply with KRS 441.135(2). The jailer did not maintain the following records: Daily Check Out Sheets, Receipts Journal, Disbursements Journal, and Summary and Reconciliation. In addition, Bill Cartmill, Hart County Jailer, did not report the canteen account to the county treasurer for the fiscal year ended June 30, 2001.

Note 9. Subsequent Events

- A. On July 19, 2001, Hart County Fiscal Court authorized Terry Shelton, Hart County Judge Executive, to co-sign three notes with Pioneer Bank for the Industrial Authority, Inc. totaling \$761,000 (\$480,000, \$35,000, and \$246,000). These notes have various interest rates.
- B. On August 16, 2001, Hart County Fiscal Court received a project cost estimate of \$578,838 for courthouse renovations. Project package bids will begin, and work on the courthouse renovations will begin after a contract has been awarded.
- C. On January 17, 2002, Hart County Fiscal Court approved the creation of a "holding company" to be known as Hart County Industrial Authority Finance Corporation. This corporation is to handle financing details for the Hart County Industrial Authority, Inc.
- D. On March 7, 2002, Hart County Fiscal Court approved a budget amendment for the 2001-2002 budget in the amount of \$973,000 for unbudgeted revenue from a CDBG grant.
- E. On June 6, 2002, Hart County Fiscal Court authorized Terry Shelton, Hart County Judge Executive, to sign documents for KARP in the amount of \$1,404,700.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HART COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,155,780	\$ 2,186,251	\$ (969,529)
Road and Bridge Fund	926,500	1,045,137	118,637
Jail Fund	773,938	966,346	192,408
Local Government Economic Assistance Fund	<u>39,304</u>	<u>42,723</u>	<u>3,419</u>
Totals	<u>\$ 4,895,522</u>	<u>\$ 4,240,457</u>	<u>\$ (655,065)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,895,522
Add: Budgeted Prior Year Surplus			1,301,460
Add: Budgeted Borrowed Money			1,480,300
Less: Budgeted Other Financing Uses			<u>(1,862,419)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,814,863</u>

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SCHEDULE OF OPERATING REVENUE

HART COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Revenue Categories</u>	<u>Totals (Memorandum Only)</u>	<u>General Fund Type</u>	<u>Capital Projects Fund Type</u>	<u>Debt Service Fund Type</u>
Taxes	\$ 1,330,734	\$ 1,330,734	\$	\$
In Lieu Tax Payments	22,328	22,328		
Excess Fees	64,391	64,391		
Licenses and Permits	20,099	20,099		
Intergovernmental Revenues	2,514,940	2,514,940		
Charges for Services	15,708	15,708		
Miscellaneous Revenues	189,187	189,187		
Interest Earned	116,933	116,272	272	389
Total Operating Revenue	<u>\$ 4,274,320</u>	<u>\$ 4,273,659</u>	<u>\$ 272</u>	<u>\$ 389</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HART COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 873,913	\$ 728,927	\$ 144,986
Protection to Persons and Property	1,625,899	1,574,648	51,251
General Health and Sanitation	1,144,305	143,041	1,001,264
Social Services	42,238	9,983	32,255
Recreation and Culture	294,189	293,360	829
Roads	1,047,578	915,407	132,171
Airports			
Debt Service	70,000		70,000
Capital Projects			
Administration	716,741	522,746	193,995
Total Operating Budget - General Fund Type	\$ 5,814,863	\$ 4,188,112	\$ 1,626,751
Other Financing Uses:			
Borrowed Money-			
Lease-Purchase Principal	78,400	78,400	
Kentucky Advanced Revenue Program - Principal	1,481,300	1,481,300	
Transfers to Hart County Public Properties Corporation Fund-			
Principal	125,000	130,000	(5,000)
Interest	177,718	172,718	5,000
TOTAL BUDGET - GENERAL FUND TYPE	\$ 7,677,281	\$ 6,050,530	\$ 1,626,751

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Hart County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated July 2, 2002. We did not audit the financial statements of the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. Other auditors whose reports have been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 2, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HART COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HART COUNTY FISCAL COURT

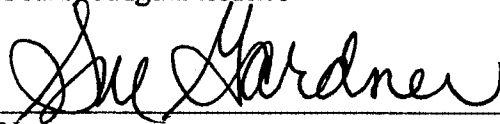
Fiscal Year Ended June 30, 2001

The Hart County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

Fiscal Year Ended June 30, 2001

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

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YEAR ENDED JUNE 30, 2001

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KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hart County Solid Waste Management District

We have audited the accompanying general purpose financial statements of Hart County Solid Waste Management District, a component unit of Hart County, Kentucky as of and for the year ended June 30, 2001 as listed in the table of contents. These general purpose financial statements are the responsibility of Hart County Solid Waste Management District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hart County Solid Waste Management District as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2002, on our consideration of Hart County Solid Waste Management District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clauson, Mouser & Co., PSC

Certified Public Accountants

March 21, 2002

FINANCIAL STATEMENTS

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
BALANCE SHEET - PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2001

ASSETS AND OTHER DEBITS

Cash and cash equivalents	\$ 76,294
Accounts receivable, net	118,752
Restricted assets:	
Cash with fiscal agent	103,950
Fixed assets, net	<u>1,051,417</u>
 TOTAL ASSETS AND OTHER DEBITS	 <u><u>\$1,350,413</u></u>

LIABILITIES, FUND EQUITY AND OTHER CREDITS

LIABILITIES

Accounts payable	\$ 40,950
Payroll taxes payable	7,595
Retirement plan payable	2,686
Accrued wages	11,942
Accrued leave	4,908
Accrued interest	2,661
Leases payable	425,129
Notes payable	<u>791,674</u>
 TOTAL LIABILITIES	 1,287,545

FUND EQUITY AND OTHER CREDITS

Contributed capital	75,321
Retained deficit	<u>(12,453)</u>
 TOTAL FUND EQUITY AND OTHER CREDITS	 <u>62,868</u>

TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	 <u><u>\$1,350,413</u></u>
--	-------------------------------

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN

RETAINED EARNINGS - PROPRIETARY FUND TYPE - ENTERPRISE FUND

YEAR ENDED JUNE 30, 2001

OPERATING REVENUES

Charges for services	\$1,023,765
Other revenues	<u>19,478</u>
TOTAL OPERATING REVENUES	1,043,243

OPERATING EXPENSES

Landfill and disposal costs	225,383
Salaries and wages	290,034
Payroll taxes	24,452
Employee benefits	50,084
Depreciation	134,273
Fuel	58,455
Repairs, maintenance and supplies	122,231
Insurance	30,933
Office supplies and expenses	6,207
Postage and postal charges	4,917
Travel	2,927
Uniforms	3,364
Utilities and telephone	4,545
Professional fees	5,000
Taxes, licenses, permits and fees	3,642
Miscellaneous and other expenses	<u>9,624</u>
TOTAL OPERATING EXPENSES	<u>976,071</u>

OPERATING INCOME	67,172
-------------------------	---------------

NON-OPERATING REVENUES (EXPENSES)

Interest earnings	3,205
Interest expense	(40,869)
Loss on disposal of fixed assets	<u>(1,133)</u>

NET NON-OPERATING EXPENSES	<u>(38,797)</u>
-----------------------------------	------------------------

NET INCOME	28,375
-------------------	---------------

Depreciation transferred to contributions	<u>11,948</u>
---	---------------

INCREASE IN RETAINED EARNINGS	40,323
--------------------------------------	---------------

RETAINED DEFICIT - beginning	<u>(52,776)</u>
-------------------------------------	------------------------

RETAINED DEFICIT - ending	<u><u>\$ (12,453)</u></u>
----------------------------------	----------------------------------

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE - ENTERPRISE FUND
YEAR ENDED JUNE 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 67,172
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	134,273
Change in assets and liabilities:	
Increase in accounts receivable	(17,781)
Decrease in prepaid insurance	30,932
Increase in restricted assets	(103,950)
Decrease in accounts payable	(4,154)
Decrease in payroll taxes payable	(3,323)
Decrease in retirement plan payable	(289)
Increase in accrued wages	387
Increase in accrued leave	1,416
Increase in accrued interest	<u>626</u>
Total adjustments	38,137
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 105,309

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal payments on leases and notes	(174,347)
Interest paid on leases and notes	(40,869)
Purchase of fixed assets	(7,657)
Proceeds from long term debt	105,000
Proceeds from disposal of fixed assets	<u>4,000</u>
 NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 (113,873)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>3,205</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (5,359)
CASH AND CASH EQUIVALENTS, beginning	<u>81,653</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 76,294</u></u>

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction - Hart County Solid Waste Management District (District) was created pursuant to the provisions and procedures of KRS 109.041 (13) and KRS 67.083 (3); and is managed and operated by a Board of Directors which is appointed by the Hart County Judge Executive and confirmed by Hart County Fiscal Court. The District provides solid waste management services for residents of Hart County, including county-wide garbage pick-up, large dumpster pick-up, solid waste drop off facilities, metal recycling, composting and mulching.

The general purpose financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2001.

Financial Reporting Entity - The District is a component unit of Hart County, Kentucky. The accompanying general purpose financial statements include all funds controlled by the District.

Funds and Account Groups - The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The only fund category is:

Proprietary Fund Types - Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

Basis of Accounting - The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Fixed Assets - Purchased fixed assets are stated at historical cost where records are available and at an estimated cost where no records exist. Donated fixed assets are valued at their estimated fair market value on the date of donation.

Proprietary fund fixed assets are recorded in the respective fund and are depreciated using the straight line method. When proprietary fund fixed assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Estimated useful lives, in years, for depreciable assets are as follows:

Vehicles and computer equipment	5- 7
Furniture, fixtures, and equipment	7-10
Buildings and improvements	10-30

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

Long-Term Obligations - Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Compensated Absences - Accumulations for vacation leave are accrued dependent on years of services and provides vesting rights upon completion of one year of service. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS

The District's deposits are categorized to give an indication of the level of risk assumed by the District at June 30, 2001. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 - Uncollateralized.

	Bank Balance	Category	Carrying Amount
		1 2 3	
Enterprise Fund	\$76,662	\$76,662 -- --	\$76,294

Additional cash information is presented in Note A.

NOTE C - RESTRICTED ASSETS

Restricted assets consist of cash equivalents held by fiscal agent, restricted for construction funded through long-term debt.

NOTE D - FIXED ASSETS

The following is a summary of changes in the proprietary fund type fixed assets at June 30, 2001:

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ --	\$144,000	\$ --	\$ 144,000
Buildings and improvements	14,819	--	--	14,819
Office equipment	7,458	3,157	--	10,615
Equipment and trucks	1,083,767	4,500	(7,000)	1,081,267
Less: accumulated depreciation	(66,878)	(134,273)	1,867	(199,284)
Net property and equipment	<u>\$1,039,166</u>	<u>\$ 17,384</u>	<u>\$(5,133)</u>	<u>\$1,051,417</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE E - LEASE OBLIGATIONS

Capitalized lease obligations at June 30, 2001 consist of the following:

Lease purchase agreement payable to Government Leasing Company, secured by totes and containers recorded at \$42,285, dated March 28, 2000; payable in thirty six equal monthly installments of \$1,354 including interest. Final payment due in March, 2003.	\$ 25,972
Lease purchase agreement payable to Government Leasing Company, secured by a 1999 Chevrolet truck recorded at \$59,500, dated January 11, 2000; payable in forty eight equal monthly installments of \$1,488 including interest. Final payment due in January, 2004.	40,657
Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated March 31, 1999; payable on June 1 and December 1 in semi-annual payments of varying amounts of approximately \$29,600 including interest at 4.67%; issued for the purpose of purchasing solid waste equipment.	253,500
Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated May 31, 2001; payable in annual installments of \$15,000, due on June 1 and semi-annual installments of interest at 5% due on June 1 and December 1; issued for construction. Final payment due June, 2008.	<u>105,000</u>
TOTAL CAPITALIZED LEASE OBLIGATIONS	<u>\$425,129</u>

NOTE F - NOTES PAYABLE

General obligation notes payable at June 30, 2001 consist of the following:

\$750,000 Kentucky Infrastructure Authority Assistance Agreement, dated January 1, 2000; payable on June 1 and December 1 in semi-annual installments of \$57,676 including interest at 2.0%; issued for the purpose of financing equipment purchases; secured by the system revenues of the District.	\$ 649,147
\$144,000 Hart County Industrial Authority, Inc., dated February 1, 2001; payable in one hundred and twenty equal monthly installments of \$1,500 including interest at 9.5%, plus twenty five percent of the net collected funds from any future recycling activities undertaken by the District; final payment of all principal and accrued interest due in June, 2011 in a balloon payment. Issued for the purchase of and secured by twenty acres of real property.	<u>142,527</u>
TOTAL NOTES PAYABLE	<u>\$ 791,674</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE G - CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions in the proprietary fund type of the District for the year ended June 30, 2001.

Balance, July 1, 2000	\$1,142,150
Increases:	
Notes and lease agreement issued	249,000
Decreases:	
Principal payment of notes and leases	<u>(174,347)</u>
Balance, June 30, 2001	<u>\$1,216,803</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2001, including interest payments of \$208,431 are as follows:

Annual Requirements to Amortize Long-Term Debt
June 30, 2001

Year Ending <u>June 30</u>	<u>Notes Payable</u>
2002	246,894
2003	242,107
2004	221,765
2005	210,517
2006	199,968
2007-2011	<u>303,983</u>
	<u>\$1,425,234</u>

NOTE H - FUND EQUITY

Contributions - Proprietary fund adjustments to contributions for the fiscal year are as follows:

Contributed capital - July 1, 2000	\$ 87,269
Depreciation on assets contributed by Hart County	<u>(11,948)</u>
Contributed capital - June 30, 2001	<u>\$ 75,321</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

NOTE I - NONMONETARY TRANSACTIONS

Non cash investing and financing transactions excluded from the statement of cash flows for the year ended June 30, 2001 consist of the acquisition of land valued at \$144,000 financed with a note payable to the seller. The land and the corresponding obligation are included in the fixed assets and notes payable of the accompanying financial statements.

NOTE J - RETIREMENT PLAN

The District participates in the County Employees Retirement System (CERS) pension plan (Plan). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the Kentucky Retirement System. The Plan provides for retirement, disability, and death benefits to Plan members. Retirement benefits may be extended to beneficiaries of Plan members under circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS Plan members are required to contribute 5.0% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The table below summarizes employer contribution rates and amounts contributed to the Plan for the year ended June 30, 2001 and the preceding year.

Year Ended June 30	<u>Contribution Rate</u>		<u>Creditable</u>	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
	<u>Employee</u>	<u>Employer</u>	<u>Compensation</u>	<u>Contribution</u>	<u>Contribution</u>	<u>Contribution</u>
2001	5.0%	7.17%	\$246,571	\$12,281	\$17,726	\$30,007
2000	5.0%	7.17/7.28%	111,360	5,568	8,003	13,571

NOTE K - RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District purchases commercial insurance to mitigate the risk of loss to which the District is exposed in normal operations.

COMPLIANCE AND INTERNAL CONTROL

Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA

SUSAN C. MOUSER, CPA

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

BONNIE M. ZOSCHAK, CPA

MELISSA S. MARTIN, CPA

To the Board of Directors
Hart County Solid Waste Management District

We have audited the general purpose financial statements of Hart County Solid Waste Management District as of and for the year ended June 30, 2001, and have issued our report thereon dated March 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County Solid Waste Management District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 21, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Solid Waste Management District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated March 21, 2002.

This report is intended solely for the information and use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

March 21, 2002

HART COUNT INDUSTRIAL AUTHORITY, INC.

Fiscal Year Ended June 30, 2001

**HART COUNTY INDUSTRIAL
AUTHORITY, INC.**

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001 AND 2000**

HART COUNTY INDUSTRIAL AUTHORITY, INC.

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YEARS ENDED JUNE 30, 2001 AND 2000

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Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

KENNETH D. CLAUSON, CPA
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BONNIE M. ZOSCHAK, CPA
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Board of Directors
Hart County Industrial Authority, Inc.
Munfordville, Kentucky

We have audited the accompanying general purpose financial statements of Hart County Industrial Authority, Inc., a component unit of Hart County, Kentucky as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of Hart County Industrial Authority, Inc.'s management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hart County Industrial Authority, Inc. as of June 30, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2002 on our consideration of Hart County Industrial Authority, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Certified Public Accountants

February 1, 2002

HART COUNTY INDUSTRIAL AUTHORITY, INC.

BALANCE SHEETS

ALL FUND TYPES AND ACCOUNT GROUPS

	June 30, 2001			
	Governmental Fund Type	Account Groups		Totals (Memo Only)
		General Fixed Assets	General Long-Term Debt	Reporting Entity
<u>ASSETS AND OTHER DEBITS</u>				
Cash and cash equivalents	\$ 479	\$ --	\$ --	\$ 479
Property and improvements	--	2,002,107	--	2,002,107
Amount to be provided for retirement of debt	--	--	2,108,727	2,108,727
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 479</u>	<u>\$2,002,107</u>	<u>\$2,108,727</u>	<u>\$4,111,313</u>
<u>LIABILITIES, FUND EQUITY, AND OTHER CREDITS</u>				
LIABILITIES				
Notes payable	\$ --	\$ --	\$2,108,727	\$2,108,727
TOTAL LIABILITIES	--	--	2,108,727	2,108,727
FUND EQUITY AND OTHER CREDITS				
Investment in general fixed assets	--	2,002,107	--	2,002,107
Fund balances—unreserved and undesignated	479	--	--	479
TOTAL FUND EQUITY & OTHER CREDITS	<u>479</u>	<u>2,002,107</u>	<u>--</u>	<u>2,002,586</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 479</u>	<u>\$2,002,107</u>	<u>\$2,108,727</u>	<u>\$4,111,313</u>

See notes to financial statements.

June 30, 2000			
Governmental	Account Groups		Totals
Fund types	General	General	(Memo Only)
	Fixed	Long-Term	Reporting
General	Assets	Debt	Entity
\$10,061	\$ --	\$ --	\$ 10,061
--	1,786,846	--	1,786,846
--	--	<u>1,832,002</u>	<u>1,832,002</u>
<u>\$10,061</u>	<u>\$1,786,846</u>	<u>\$1,832,002</u>	<u>\$3,628,909</u>
\$ --	\$ --	<u>\$1,832,002</u>	<u>\$1,832,002</u>
--	--	1,832,002	1,832,002
--	1,786,846	--	1,786,846
<u>10,061</u>	<u>--</u>	<u>--</u>	<u>10,061</u>
<u>10,061</u>	<u>1,786,846</u>	<u>--</u>	<u>1,796,907</u>
<u>\$10,061</u>	<u>\$1,786,846</u>	<u>\$1,832,002</u>	<u>\$3,628,909</u>

HART COUNTY INDUSTRIAL AUTHORITY, INC.

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**

ALL FUND TYPES

	Year ended June 30, 2001 Governmental Fund Type <u>General</u>	Year ended June 30, 2000 Governmental Fund Type <u>General</u>
REVENUES:		
Rental income	\$122,550	\$ 60,000
Intergovernmental revenue	10,000	--
Donations	--	2,000
Interest income	349	387
Other income	<u>1,168</u>	<u>2,296</u>
TOTAL REVENUES	134,067	64,683
EXPENDITURES:		
Commissions	12,405	5,500
Professional fees	1,360	--
Insurance	7,480	1,806
Utilities	1,030	1,339
Other expenses	805	--
Capital outlay	289,110	13,732
Debt service - principal	20,964	--
- interest	<u>114,184</u>	<u>62,253</u>
TOTAL EXPENDITURES	<u>447,338</u>	<u>84,630</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(313,271)	(19,947)
OTHER FINANCING SOURCES:		
Loan proceeds	297,689	27,000
Installment sale collections	<u>6,000</u>	<u>--</u>
TOTAL OTHER FINANCING SOURCES	<u>303,689</u>	<u>27,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(9,582)	7,053
FUND BALANCE, beginning	<u>10,061</u>	<u>3,008</u>
FUND BALANCE, ending	<u>\$ 479</u>	<u>\$ 10,061</u>

See notes to financial statements.

HART COUNTY INDUSTRIAL AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001 AND 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction - The Hart County Industrial Authority, Inc. (the Authority) was established by appointment of the Hart County Fiscal Court, in 1988 in accordance with KRS 154.50, for the purpose of promoting industrial development in Hart County, Kentucky. The authority was established, as a body politic and corporate, a non-profit, non-stock corporation.

The general purpose financial statements of Hart County Industrial Authority, Inc. are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal years ended June 30, 2001 and 2000.

Financial Reporting Entity - The Authority is a component unit of Hart County, Kentucky. The accompanying general purpose financial statements include all funds and account groups controlled by the Authority.

Funds and Account Groups - The accounts of the Authority are organized into funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories and account groups are:

Governmental Fund Types - Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

Account Groups - The account groups are used to account for fixed assets and long term liabilities which are not reported in the respective government funds.

Total Columns - (Memo Only) - Total columns on the combined statements are captioned "memo only" to indicate that they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

Basis of Accounting - The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available". Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Improvements - Purchased property and improvements are stated at historical cost where records are available and at an estimated cost where no records exist. Governmental fund fixed assets are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. The related assets are reported in the General Fixed Asset Account Group and are not depreciated.

Interest Costs - Interest costs on debt for which proceeds are used to finance the construction of assets are not capitalized.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS

Deposits (cash and cash equivalents) are carried at cost which approximates market value. As of June 30, 2001 and 2000, the carrying amount of the Authority's deposits were \$479 and \$10,061 respectively. The bank balances were also \$479 and \$10,061 respectively. Federal depository insurance secures the bank balances.

HART COUNTY INDUSTRIAL AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001 AND 2000

NOTE C - FIXED ASSETS

A summary of changes in the general fixed assets account group at June 30, 2001 and 2000 is as follows:

	<u>Land, buildings and improvements</u>
Balance 7/1/99	\$1,773,114
Additions	13,732
Deletions	<u>--</u>
Balance 6/30/00	1,786,846
Additions	289,110
Deletions	<u>(73,849) (1)</u>
Balance 06/30/01	<u>\$2,002,107</u>

(1) Real estate consisting of approximately 20 undeveloped acres was sold in February, 2001 to Hart County Solid Waste Management District for \$144,000, to be paid in monthly installments of \$1,500 for ten years with remaining principal due and payable in 2011. Current year collections in the amount of \$6,000, consisted of \$1,473 principal and \$4,523 interest. The unpaid principal balance at June 30, 2001 was \$142,527.

NOTE D - NOTES PAYABLE

Notes payable at June 30 consist of the following:

	<u>June 30 2001</u>	<u>June 30 2000</u>
Note payable to Kentucky Economic Development Finance Authority, secured by letters of credit, dated May 21, 1999; maturing May 21, 2004. Principal payable in full at maturity or upon sale of a corresponding Project Site, whichever occurs first. Interest is payable quarterly at the annual rate of 2.00%.	\$ 500,000	\$ 500,000
Note payable to Kentucky Utilities, unsecured, dated May 12, 1998. The note is non-interest bearing and is payable upon demand.	80,000	72,311
Note payable to Kentucky Banking Centers, Inc., dated April 19, 1999, renewable annually, secured by real estate. Principal payable in full upon sale of the corresponding Project Site. Interest is variable and is payable annually.	513,591	513,591
Notes payable to Pioneer Bank are as follows:		
Note dated June 1, 1998, unsecured, renewable bi-annually. Interest is variable and is payable monthly.	246,100	246,100
Note dated June 1, 1999, secured by real estate, renewable annually. Interest is variable and is payable annually.	480,000	480,000
Notes dated May 11, 2000, and July, 28, 2000, unsecured and due annually. Interest is variable and is payable monthly.	35,000	20,000
Note dated October 1, 2000, unsecured and due annually. Payable in monthly installments of \$5,550 including interest at 5.325%.	<u>254,036</u>	<u>--</u>
TOTAL NOTES PAYABLE	<u>\$2,108,727</u>	<u>\$1,832,002</u>

HART COUNTY INDUSTRIAL AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001 AND 2000

NOTE E - CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the General Long-Term Debt Account Group for the years ended June 30, 2001 and 2000:

Balance, July 1, 1999	\$1,805,002
Increases:	
Notes payable issued	<u>27,000</u>
Balance, June 30, 2000	1,832,002
Increases:	
Notes payable issued	297,689
Decreases:	
Debt service-principal payments	<u>(20,964)</u>
Balance, June 30, 2001	<u>\$2,108,727</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2001 and 2000, including interest payments of \$154,770 and \$159,459 respectively, are as follows:

<u>Annual Requirements to Amortize Long-Term Debt</u>			
<u>June 30, 2001</u>		<u>June 30, 2000</u>	
<u>Year ending</u> <u>June 30</u>	<u>General Long Term</u> <u>Account Group</u> <u>Notes Payable</u>	<u>Year ending</u> <u>June 30</u>	<u>General Long Term</u> <u>Account Group</u> <u>Notes Payable</u>
2002	\$1,525,493	2001	\$1,195,476
2003	76,600	2002	275,985
2004	576,600	2003	10,000
2005	66,600	2004	<u>510,000</u>
2006	18,204		
	<u>\$2,263,497</u>		<u>\$1,991,461</u>

NOTE F - RISK MANAGEMENT

The Authority is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, errors and omissions, fiduciary responsibilities, etc. The Authority purchases commercial insurance to mitigate the risk of loss to which the Authority is exposed in normal operations.

INTERNAL CONTROL AND FISCAL COMPLIANCE

Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Hart County Industrial Authority, Inc.
Munfordville, Kentucky

We have audited the general purpose financial statements of Hart County Industrial Authority, Inc., as of and for the year ended June 30, 2001 and 2000, and have issued our report thereon dated February 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County Industrial Authority, Inc.'s general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Industrial Authority, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hart County Industrial Authority, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions noted are described as follows:

Due to the limited number of financial personnel at Hart County Industrial Authority, Inc., several functions which ideally should be performed by different individuals, are regularly performed by the same individual. Such functions include making bank deposits, issuing checks, preparing the bank reconciliations, and recording of transactions. It may be impractical to overcome this weakness. However, management should be aware of the situation and attempt, when possible, to have individuals independent of these functions review monthly bank reconciliations and transaction reports. Such measures would not in themselves correct the situation but would possibly mitigate to a certain extent the potential exposure.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Hart County Industrial Authority, Inc., in a separate letter dated February 1, 2002.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

February 1, 2002

